

ANNUAL REPORT 1974



RivTow Straits Limited

RivTow Straits Limited

Annual General Meeting

Kent Room, Hotel Georgia,
Vancouver, B.C., Canada
June 11th, 1975
9:30 a.m.
Vancouver Time

Head Office

2215 Commissioner Street,
Vancouver, B.C., Canada V5L 1A8
Telephone: 604-255-1133
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Bankers

The Royal Bank of Canada

Auditors

Thorne Riddell & Co.

Stock Listing

Vancouver Stock Exchange

Transfer Agents & Registrar

National Trust Company Limited
Vancouver, Canada

Directors

Arthur B. Christopher
Ronald L. Cliff
Cecil S. Cosulich
Norman R. Cosulich
Harold M. Gale
Lucille M. Johnstone
George B. McKeen
John Pearson

Executive Officers

Cecil S. Cosulich
President and Chief Executive Officer
Norman R. Cosulich
Vice President — Operations
Lucille M. Johnstone
Vice President — Administration

Secretary

Lucille M. Johnstone

Report to the Members

The challenge of operating a business is constant. Each year presents new problems and new opportunities. 1974 was no exception but particularly prominent was the unprecedented inflation on the problem side and the successful phase-in of the Arctic operation on the opportunity side.

Your Company was able to keep pace with inflation in shipyard production by amending the basic form of its contracts to include price adjustments for inflation increases on new construction.

The service divisions, principally those providing towing services, were however, adversely affected since contracts escalate solely on tug wages and fuel expenses and do not include repair or replacement costs. An IWA strike and the forest industry slump made further intrusions on the operations, but were somewhat eased by the diverse marine activities that have been developed over the last five years.

One of the highlights of 1974 was the opportunity for R.S.L. shipyards to construct and convert additional vessels for Arctic Navigation and Transportation Ltd. (Arcnav), as well as a contract by that company to utilize all of its marine equipment to carry freight down the Mackenzie River, and to construct two man-made islands in the Beaufort Sea.

The Financial Statements are presented in accordance with generally accepted accounting principles and as a result show a net income of 47 cents per share for 1974 compared to 34 cents per share for 1973. The Financial Statements do not include four items which are important:

1. In 1974 your shipyards constructed marine equipment costing approximately \$3,000,000 for Arcnav. Since your Company owns 50% of Arcnav, only 50% of the profit can be taken into account in 1974 and the balance is to be included in future statements over the useful life of the equipment constructed.
2. The January 2nd, 1975, Consolidated Balance Sheet of your Company sets out the position of your Company after the amalgamation of RivTow Straits Limited and Whitier Investments Ltd. (Whitier), and implants the earnings of the Whitier Group to the end of 1974 as share capital. The sales and earnings of Whitier for 1974 were:

Sales and operating revenue	\$11,384,000
Cost of sales and operating expenses	<u>10,802,000</u>
	582,000
Income Taxes	<u>292,000</u>
Net Income for the period	<u>\$ 290,000</u>

Earnings per share, if these profits had been accounted for on an earnings basis, would have been 51 cents per share after the amalgamation (with 2,390,000 shares outstanding).

3. During 1974, upgrading continued to bring the fleet to new standards required by legislation. This is very expensive in capital cost and loss of use of the equipment. The time loss in this upgrading has been absorbed into operating costs.
4. Most of the equipment under charter to your Company has options to purchase at fixed prices. As these charters near the end of the charter period, we intend to buy the equipment at these fixed prices, which because of inflation in replacement costs, are advantageous to your Company. As at December 31, 1974, this equipment had an appraised value of \$4,500,000; payment of leases and options including interest are approximately \$3,000,000.

Other important events affecting your Company occurred in 1974.

The financial structure of the Company was considerably altered upon completion of the \$14,000,000 refinancing. This has placed your Company in the advantageous position of having working capital and a stable long term debt retirement program.

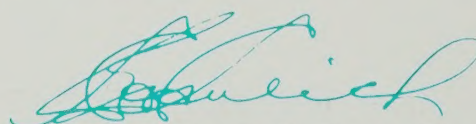
Looking at the forest industry, the down-trend has continued into 1975. The effects have been partially offset by placing one of the large tugs on a favourable one-year charter to work in the North Sea and one 7,500 ton barge has been sold for international service. It is felt that the balance of the fleet will be needed in local waters.

The only "fixed price" long term contracts your Company had for use of Chip Barges terminated on December 31st, 1974. They have been re-negotiated effective January 1st, 1975, at a substantial increase in charter fees.

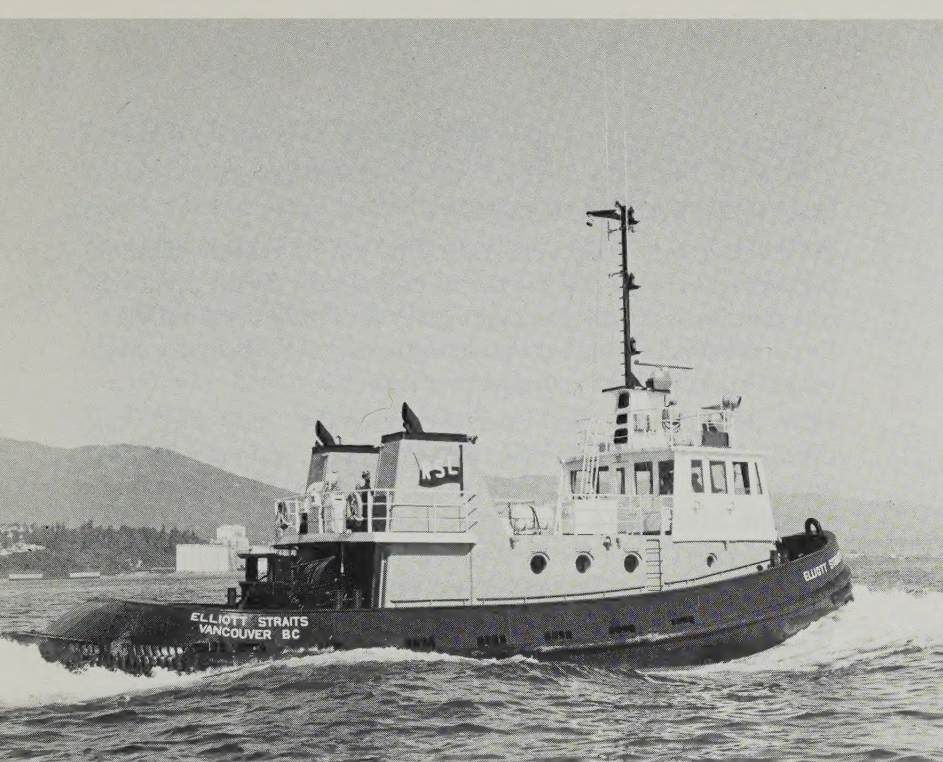
The shipyards are busy on new construction commitments. The construction of commercial fishing vessels by John Manly Ltd. has provided substantial volume increases to that yard.

The aggregates and ready-mix divisions have increased work commitments, including supply of ready-mix for the National Harbours Board development at Prince Rupert.

A good relationship between a company and its personnel is vital to a successful operation. The work effort and co-operation of your Company's employees during 1974 was of the highest calibre and sincerely appreciated.



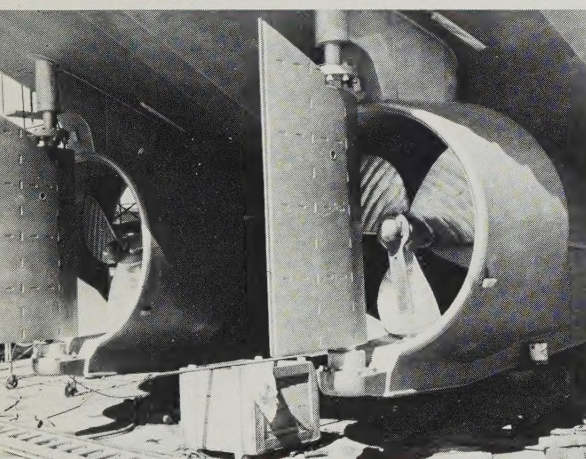
President and Chief Executive Officer
on behalf of the Board of Directors



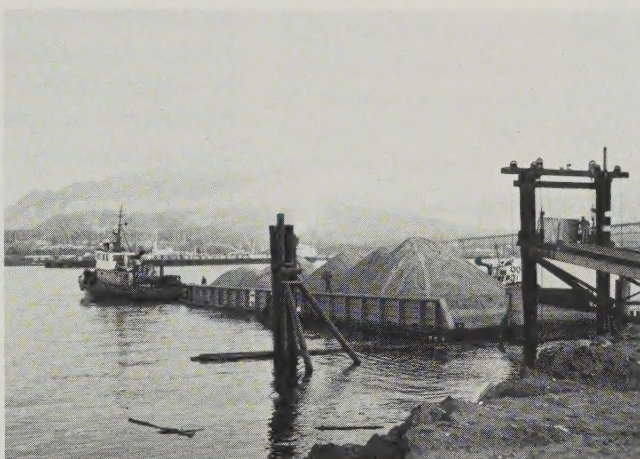
The Elliott Straits, built by B.C. Marine Shipbuilders Ltd. in 1974 and now operating in the R. S. L. Coastal Fleet.



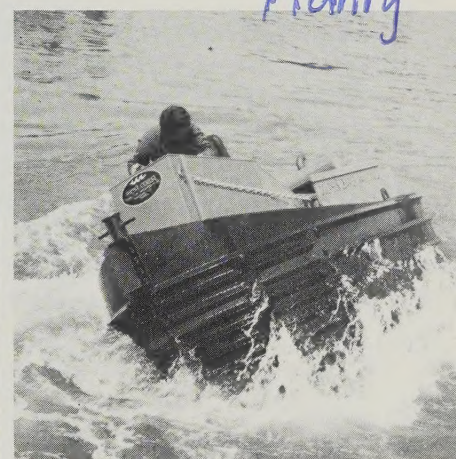
Offloading camp units at Valdes, Alaska.



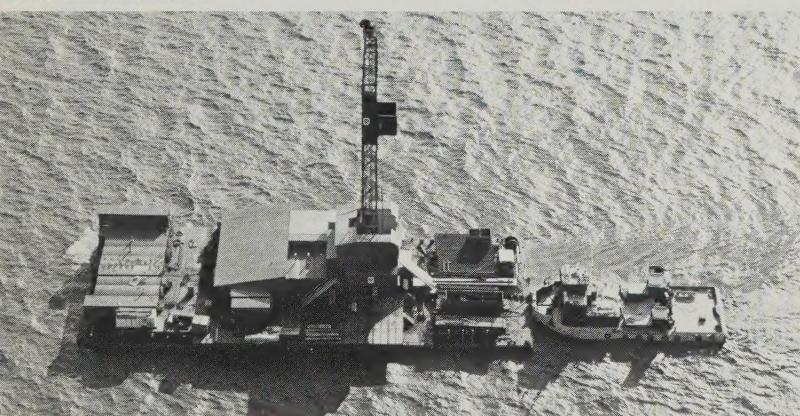
Kort nozzles and propellers which were manufactured by John Manly Ltd.



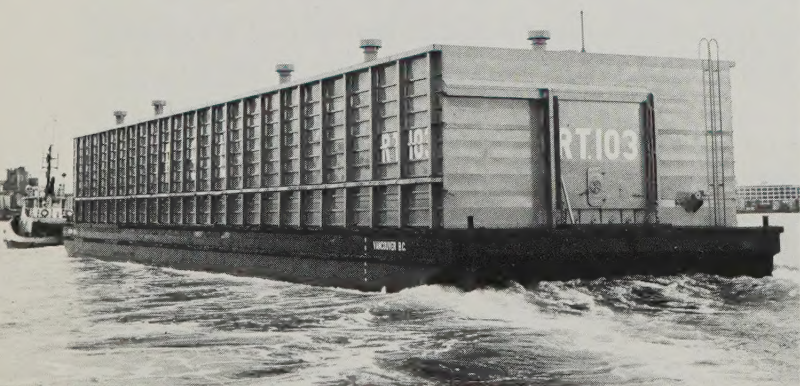
Sechelt gravel arriving in Vancouver Harbour.



A "West Coast Winder".



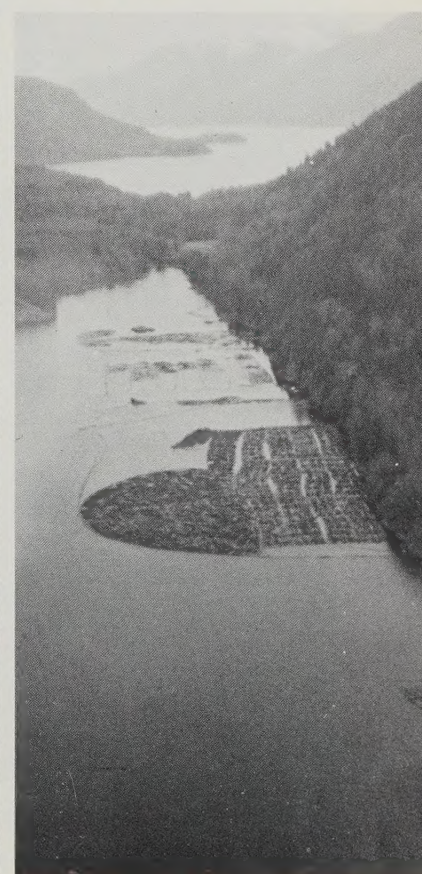
The Edwin Lindberg moving a drill rig into position on the Beaufort Sea.



The R. T. 103 after conversion by B.C. Marine to a covered barge.



Purves Ritchie outlets many lines of industrial equipment and smaller items such as chain saws.



Log storage upcoast.

dam ✓

flatfish ✓

sun flat ✓

1974 was a very busy year until June but thereafter demand for services weakened for the movement of forest products but remained strong for aggregates and bulk commodities. Repairs both in numbers and cost were exceptionally high which significantly reduced profitability.

The Ocean Clipper was repowered to 1800 H.P. and her performance has exceeded expectations. The barge, R.T. 103 was lengthened and converted into a covered barge. Her carrying capacity is 1800 tons and she has a cubic capacity of 154,487 cu. ft.

Added dispatch shifts were initiated during the year and re-organization of staff was completed to increase efficiencies in operations.

The outlook for the marine transportation division will remain uncertain until there is a turnaround in the forest industry. To lessen the impact of the recession in the forest industry certain vessels will be employed in international trade in 1975.

This division relies totally on the forest industry for its income, consequently it suffered from the slump in that industry in the last part of 1974.

During the year, the log dump and sorting grounds at Avalon were enlarged and improved. A noticeable trend to more log bundling is apparent and the division is adjusting accordingly.

Two interesting changes have occurred at the Avalon Base. One is the creation of a disposal area for drift and beach wood. The project is being done in co-operation with the Council of Forest Industries. New and improved methods of disposition of the material are being investigated and could offer new opportunities for the division.

The other change concerns several acres of the upland property which have been placed on long term lease to a forest company for a dry land log sorting operation.

These new ventures are the first of several that are planned to effect better utilization of the Avalon property.

PACIFIC RIM AGGREGATES

All operating segments of Pacific Rim reflected increased gross sales in sand, gravel and ready mix concrete.

Sechelt Sand & Gravel sales increased by 50% and delivery is to a broader range of customers than in the past, including shipments to Alaska.

In addition to their normal activity, Rupert Cement Products was fortunate in receiving a contract to supply 40,000 cu. yds. of high strength concrete for the Fairview Project in Prince Rupert with delivery commencing in May, 1975.

The Nelson and Westbank plants had a six week labour interruption but recovered reasonably well. The Nelson plant modernization program is scheduled for completion in 1975.

A quarrying operation was assumed at Bishop Creek near the north end of Indian Arm. The quality of the crushed material and larger rock available from this source will offer Lower Mainland customers a selection of products previously unavailable through Pacific Rim.

Barring labour problems, the outlook for the ready mix and gravel divisions appears good for 1975.



Challenge — Cook Ready Mix Unit

ARCTIC NAVIGATION AND TRANSPORTATION LTD.

1974 was Arcnav's first full operational year. The Company was fortunate in negotiating a contract to construct and supply two artificial islands in the Beaufort Sea. The islands were built to accommodate drilling rigs for gas and oil exploration.

One of the islands was built during the winter and was an earth filled pad protected by sand bagged perimeters. The other island was a drilling platform fabricated by B.C. Marine Shipbuilders, launched at Hay River and fitted out at the Arcnav base in Inuvik. Approximately one half million sand bags were required for the project as well as the granular material which was placed at Unark, the earth filled island. Both islands were operational by the end of the navigation season and all necessary supplies were delivered to the two sites by the Arcnav fleet.

Additional equipment acquired by Arcnav in 1974 included two spud barges, the 1450 H.P. shallow draft tug Arctic Sun and a Model 4100 W. Manitowoc crane.

TILBURY ISLAND TERMINALS LTD.

In 1974, RivTow Straits Limited entered an agreement to acquire full ownership of Tilbury Island Terminals Ltd. Subsequently a new warehouse was constructed and Tilbury became the terminus and head office for R.S.L.'s regularly scheduled freight barge service to Prince Rupert, Masset and Stewart. The terminal has been steadily improving its property and will be fully paved in 1975. Traffic through the terminal has been increasing and shipments have crossed its dock to many coastal points, including Alaska and to Lash Ships.

All freight destined for Ocean Falls is loaded to barge at Tilbury. Heavy industrial equipment for outport destinations has been arriving by rail and road for furtherance by barge to final destination. A container service is being developed and further materials handling equipment is being acquired.

The proximity of the major highway network and the rail line makes the terminal's future very promising.

REAL ESTATE

R.S.L. either owns or leases some 4,000 acres of land most of which has waterfrontage. These properties were acquired in order to provide service to the forest industry. Increasing lease fees and taxes have necessitated finding other utilization.

In order to effectively plan and develop the properties, a real estate division was established in 1974. Forward planning is underway to determine optimum use. Several developments now completed should be reflected in the 1975 operating results.



Arcnav at work.

SHIPBUILDING

During 1974, two shipyards were in operation.

B. C. Marine Shipbuilders Limited built the 1450 H.P. shallow draft tug "Arctic Sun" and the 119' spud barge "Ichabod". Two former rail barges were joined by heavy transverse beams to form an oil rig drilling platform creating the largest catamaran in the Arctic. The self-propelled barge "Delta Transporter" was revamped and a barge converted for heliport use. These were built by B. C. Marine for Arcnav's contract for an island building program in the Beaufort Sea.

The 1350 H.P. tug "Elliott Straits" was launched in June and is presently in service within the R.S.L. coastal fleet. A sister vessel "Ballantyne Straits" is being completed in 1975.

Repair work constituted a large portion of the yard's income as most of R.S.L.'s fleet repair work is contracted to B.C. Marine.

The forge shop continued to produce items such as lift truck forks, drop forged hammers, picks, etc. Production of hand forged lift forks was down in 1974, however custom forging, hammers, wedges and picks showed a marked increase.

John Manly Ltd. built four coastal tugs, ten boom boats, a 73' seiner, a 65' seiner, two 70' trawlers and two shallow draft boom boats for delivery to the Philippines.

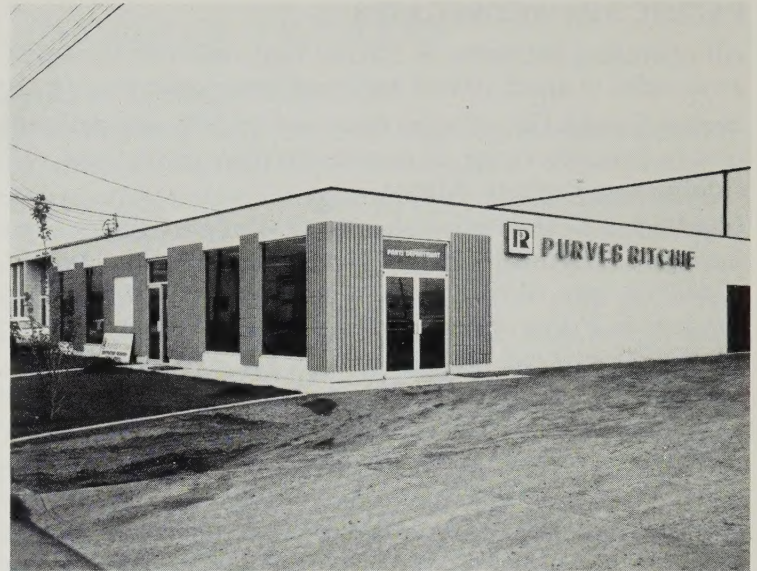
The ships, doors and windows division of Manly's have been reorganized and the door division is now housed in a much better building. Production of doors, windows, hatches, propellers and Kort nozzles were up both in volume and profits.

Through the amalgamation effective January 2nd, 1975, West Coast Salvage and Contracting Co. Limited became RivTow Straits Limited third shipyard. During 1974 they produced a total of 67 boats, built in sixteen different models and as in the other yards both in steel and aluminum. West Coast caters mostly to the logging and fishing industries. The Company also produces doors, hatches and Danforth type anchors in a full range of sizes.

It has a boat brokerage division which buys and sells new and used vessels. West Coast moved to a new premises in 1974 with new desirable facilities. A major purchase by West Coast was its 50 ton Travelift, the first of its kind in Canada. This machine can lift up to a 50' boat from the water and carry it to a land site for repair or storage.

The Shipbuilding section of R.S.L. has in the past been geared to vessel construction required for the forest industry. The swing to construction for the fishing industry and the Arctic area, as well as the increasing interest in the Breaux aluminum hulls built by John Manly, will help offset the recession in present forest industry capital construction programs.

The recent announcement of 3% of subsidized construction being allocated by the Federal Government to shipyards for modernization, will assist to upgrade the yards for increased efficiencies.



New quarters at Edmonton.

INDUSTRIAL EQUIPMENT

As of January 2nd, 1975, Purves Ritchie became a wholly owned subsidiary of R.S.L. In 1974 Purves Ritchie Ltd. had a record year. All divisions of the Company increased their sales but the most substantial increase was generated from the Edmonton Branch.

The Edmonton Branch moved to a new location in 1974 which doubled its warehousing and yard space. The move has been justified by the increased sales which are due primarily to activities in Northern Alberta and the North West Territories.

Purves Ritchie sells and leases items such as air equipment, batch plants, mixers, concrete equipment, pumps, compaction equipment, generators, saws, vehicles, material handling equipment etc. These are manufactured by such well known companies as Challenge — Cook, Erie, Galion, Jaeger, Koehring, O.M.C., Pioneer, Thor and many others.

Forecasts indicate 1975 should be another good year.



Built by John Manly Ltd.

Wholly Owned Active Subsidiaries

Armour Salvage (1949) Ltd.
Avalon Log Sorting Ltd.
B. C. Marine Shipbuilders Limited
Canyon Cable & Supplies (1972) Ltd.
Great West Towing & Salvage Ltd.
Harbun Investments Ltd.
John Manly Equipment Ltd.
John Manly Ltd.
L.B.W. Industries Ltd.
M & M Log Sorting Co. Ltd.
M. R. Cliff Tugboat Co. Ltd.
Nelson Ready-Mix Concrete Ltd.
Point Grey Shipyards Ltd.
Point Grey Towing Co. Ltd.
Porton Enterprises Ltd.
Premier Sand & Gravel Company Limited
Purves Ritchie Limited
Purves Ritchie Sales Ltd.
Regent Towing Ltd.
Richmond Tug Boat Co. Ltd.
RivTow Marine Ltd.
Rupert Cement Products (1965) Ltd.

Sechelt Sand & Gravel Ltd.
Straits Towing Limited
Straits Tug Limited
Tilbury Island Terminals Ltd.
Twin Harbour Towing Ltd.
Viking Tugboat Co. Ltd.
Westbank Ready-Mix Concrete Ltd.
West Coast Salvage & Contracting Co. Limited
Western Propeller Ltd.
The West Coast-Purves Ritchie Company,
a wholly owned partnership
And Eleven Non-Active Companies

Partially Owned Companies

Arctic Navigation and Transportation Ltd.
Bute Towing Ltd.
Dumac Holdings Limited
Long Bay Sorting Ltd.
Marine Leasing Ltd.
RivPort Terminals Ltd.
Seaway Estates Ltd.

Auditor's Report

To the Members of RivTow Straits Limited

We have examined the consolidated balance sheet of RivTow Straits Limited and its subsidiary companies as at December 31, 1974 and the consolidated statements of income, retained earnings and changes in working capital for the year then ended. For RivTow Straits Limited and for those subsidiary companies of which we are the auditors and which are consolidated in these financial statements, our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. For the remaining companies, consolidated or accounted for by the equity method, we have relied on the reports of the auditors who have examined their financial statements.

In our opinion, these consolidated financial statements present fairly the financial position of RivTow Straits Limited and its subsidiaries as at December 31, 1974 and the results of their operations and the changes in their working capital for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

As required by the British Columbia Companies Act we report that, in our opinion, due provision has been made for minority interests.

We have also examined the consolidated balance sheet of the amalgamated company, RivTow Straits Limited, (the company which on January 2, 1975 was created upon the amalgamation of RivTow Straits Limited and Whitier Investments Ltd. pursuant to the provisions of the Companies Act of British Columbia) and its subsidiary companies as at January 2, 1975. In our opinion, this consolidated balance sheet presents fairly the financial position of RivTow Straits Limited, the amalgamated company, and its subsidiaries as at January 2, 1975 in accordance with generally accepted accounting principles applied on a basis consistent with those of the predecessor companies.

Thorne Riddell & Co.

Vancouver, B.C.
March 26, 1975

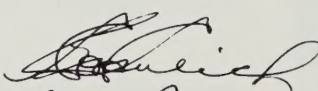
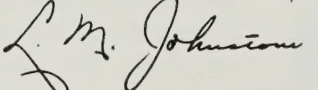
THORNE RIDDELL & CO.
Chartered Accountants

Consolidated Balance Sheet

Assets

	January 2, 1975 (note 2)	December 31, 1974	1973
<i>CURRENT ASSETS</i>			
Cash and short-term deposit receipts	\$ 31,000	\$ 31,000	\$ 69,000
Deposit on incomplete contract	—	—	530,000
Accounts receivable	7,737,000	7,043,000	4,465,000
Inventories (notes 1 and 3)	4,954,000	1,425,000	1,166,000
Prepaid expenses	509,000	475,000	609,000
	<u>13,231,000</u>	<u>8,974,000</u>	<u>6,839,000</u>
<i>INVESTMENTS AND NON-CURRENT RECEIVABLES</i>			
Long-term intercorporate investments (notes 1 and 4)	815,000	815,000	844,000
Other advances, notes and mortgages receivable, net of current portion	382,000	373,000	329,000
	<u>1,197,000</u>	<u>1,188,000</u>	<u>1,173,000</u>
<i>FIXED ASSETS (notes 1 and 5)</i>			
Vessels, plant and equipment	27,101,000	25,732,000	22,857,000
Less accumulated depreciation	<u>5,913,000</u>	<u>5,913,000</u>	<u>4,461,000</u>
	21,188,000	19,819,000	18,396,000
Construction in progress	1,909,000	1,055,000	643,000
Land and foreshore leasehold rights	5,094,000	4,689,000	4,239,000
	<u>28,191,000</u>	<u>25,563,000</u>	<u>23,278,000</u>
<i>OTHER ASSETS</i>			
Deferred charges (notes 1 and 6)	528,000	528,000	301,000
Gravel rights, at cost less amortization (note 1)	612,000	612,000	494,000
	<u>1,140,000</u>	<u>1,140,000</u>	<u>795,000</u>
	<u>\$43,759,000</u>	<u>\$36,865,000</u>	<u>\$32,085,000</u>

Approved by the Board

Director 
 Director 

Liabilities

	January 2, 1975 (note 2)	December 31, 1974	1973
<i>CURRENT LIABILITIES</i>			
Bank advances, secured by assignment of book debts and inventories	\$ 2,028,000	\$ 1,163,000	\$ 3,130,000
Accounts payable and accrued liabilities	7,565,000	5,648,000	6,137,000
Income taxes payable	178,000	52,000	96,000
Deferred income taxes	242,000	—	—
Advance on incomplete contract	—	—	530,000
Principal instalments due within one year on long-term debt	1,228,000	955,000	2,957,000
	<u>11,241,000</u>	<u>7,818,000</u>	<u>12,850,000</u>
<i>LONG-TERM DEBT</i> (note 7)	<u>15,428,000</u>	<u>14,054,000</u>	<u>5,711,000</u>
<i>DEFERRED INCOME TAXES</i> (note 1)	<u>1,858,000</u>	<u>1,321,000</u>	<u>787,000</u>
Shareholders' Equity			
<i>SHARE CAPITAL</i> (note 8)	3,560,000	2,000,000	2,000,000
<i>CONTRIBUTED SURPLUS</i>			
Premium on issue of common shares	10,000,000	10,000,000	10,000,000
<i>RETAINED EARNINGS</i>	1,672,000	1,672,000	737,000
	<u>15,232,000</u>	<u>13,672,000</u>	<u>12,737,000</u>
	<u>\$43,759,000</u>	<u>\$36,865,000</u>	<u>\$32,085,000</u>
<i>COMMITMENTS AND CONTINGENT LIABILITIES</i> (note 11)			

Consolidated Statement of Income

Year ended December 31, 1974 (with comparative figures for 1973)

	1974	1973
Revenue		
Sales	\$35,597,000	\$28,165,000
Gain on disposition of vessels and equipment	52,000	140,000
	<u>35,649,000</u>	<u>28,305,000</u>
Costs and expenses		
Cost of sales and operating expenses	29,320,000	23,047,000
General and administrative expenses	2,186,000	1,501,000
Depreciation and amortization	1,762,000	1,474,000
Interest on long-term debt	1,197,000	722,000
Other interest	360,000	239,000
Amortization of other assets	37,000	15,000
	<u>34,862,000</u>	<u>26,998,000</u>
Income from operations before income taxes	<u>787,000</u>	<u>1,307,000</u>
Income taxes (note 9)		
Current	77,000	208,000
Deferred	435,000	429,000
	<u>512,000</u>	<u>637,000</u>
Income from operations before the following	275,000	670,000
Equity in earnings (loss) of long-term intercorporate investments (notes 1 and 4)	248,000	(255,000)
Income before extraordinary credits	523,000	415,000
Extraordinary credits (note 10)	412,000	262,000
NET INCOME FOR THE YEAR	<u><u>\$ 935,000</u></u>	<u><u>\$ 677,000</u></u>
Earnings per common share		
Before extraordinary credits	\$.26	\$.21
Extraordinary credits	.21	.13
Net income for the year	<u><u>\$.47</u></u>	<u><u>\$.34</u></u>

Consolidated Statement of Retained Earnings

Year ended December 31, 1974 (with comparative figures for 1973)

	1974	1973
Retained earnings at beginning of year	\$ 737,000	\$ 60,000
Net income for the year	935,000	677,000
RETAINED EARNINGS AT END OF YEAR	<u><u>\$1,672,000</u></u>	<u><u>\$737,000</u></u>

Consolidated Statement of Changes in Working Capital

Year ended December 31, 1974 (with comparative figures for 1973)

	1974	1973
<i>SOURCE OF FUNDS</i>		
Income from operations	\$ 275,000	\$ 670,000
Items not involving current funds		
Depreciation and amortization	1,762,000	1,474,000
Amortization of other assets	37,000	15,000
Deferred income taxes	435,000	429,000
Gain on disposition of vessels and equipment	(52,000)	(140,000)
	2,457,000	2,448,000
Proceeds from issue of first mortgage bonds less deferred financing expenses of \$160,000 and retirement of other long-term debt of \$4,989,000 (note 7)	8,851,000	—
Proceeds from disposition of fixed assets	236,000	443,000
Decrease in investments and non-current receivables	68,000	—
Extraordinary credits		
Reduction of income taxes arising from the application of prior years' losses	50,000	112,000
Other	53,000	50,000
	11,715,000	3,053,000
<i>APPLICATION OF FUNDS</i>		
Additions to fixed assets	3,316,000	3,788,000
Less		
Related long-term borrowings	(295,000)	(1,749,000)
Proceeds applied from land sale	(300,000)	—
	2,721,000	2,039,000
Long-term debt repaid and currently maturing	1,138,000	3,159,000
Increase in deferred charges	22,000	287,000
Acquisition of interest in subsidiary companies (note 2)	667,000	177,000
Increase in investments and non-current receivables	—	672,000
Discounts on sale of maritime proceeds	—	152,000
	4,548,000	6,486,000
<i>INCREASE (DECREASE) IN WORKING CAPITAL</i>	7,167,000	(3,433,000)
<i>WORKING CAPITAL DEFICIENCY AT BEGINNING OF YEAR</i>	6,011,000	2,578,000
<i>WORKING CAPITAL (DEFICIENCY) AT END OF YEAR</i>	\$ 1,156,000	\$(6,011,000)

Notes to Consolidated Financial Statements

Year ended December 31, 1974 and as at January 2, 1975

1. SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of consolidation

The consolidated financial statements include the financial statements of the company and all of its subsidiaries. The excess of the cost of the investments in subsidiary companies over the underlying book value at the dates of acquisition has been attributed to tangible assets and gravel rights and is depreciated and amortized in accordance with company policy.

(b) Long-term intercorporate investments (note 4)

The investments in effectively controlled companies and joint ventures are accounted for on the equity basis whereby the cost is adjusted for the company's share of earnings or losses. The excess of the cost of these investments over the company's proportionate interest in the underlying net book value at the date of acquisition is allocated to specific assets and is amortized over the estimated useful life of those assets. The company's proportionate share of any intercompany profits is eliminated.

The remaining investments are carried at cost as they represent long-term projects with future commencement dates.

(c) Inventories (note 3)

Materials and supplies are valued at the lower of cost and replacement cost. Work in progress, the revenue for which is recognized on a completed contract basis, is valued at the lower of cost and net realizable value less progress billings. Manufactured goods and merchandise for sale are valued at the lower of cost and net realizable value. Rental equipment is valued at the lower of cost and net realizable value.

(d) Deferred charges (note 6)

These consist of:

- (i) expenditures pertaining to the company's participation in a joint venture which are matched with the related earnings over the term of specific charter agreements,
- (ii) financing costs related to the issue of the first mortgage Series A and B bonds (note 7) which will be amortized on a straight-line basis over the ten-year life of the bonds, and
- (iii) start up costs relating to new businesses which will be amortized, commencing in 1975, on a straight-line basis over two and five years.

(e) Deferred income taxes

The company follows the normal practice of charging earnings with income taxes related to those earnings. Any difference between these taxes and taxes currently payable for the year is reflected as deferred income taxes.

(f) Depreciation and amortization

Depreciation is provided on a straight-line basis to amortize the cost of fixed assets over the following estimates of useful life:

- (i) vessels — from 7 to 20 years with the majority at 13 years after giving consideration to the anticipated residual value.

- (ii) plant — from 10 to 20 years for buildings, and from 5 to 21 years for leasehold improvements.
- (iii) equipment — from 7 to 10 years.

The gravel rights are amortized over the useful life of the related lease. The rental equipment will be amortized on a straight-line basis at varying rates depending upon its estimated useful life.

2. AMALGAMATION AND BUSINESS ACQUISITIONS

A. Amalgamation January 2, 1975 of RivTow Straits Limited and Whitier Investments Ltd.

On January 2, 1975, RivTow Straits Limited (RivTow) and Whitier Investments Ltd. (Whitier) were amalgamated pursuant to the provisions of the Companies Act of British Columbia. The amalgamated company adopted the name "RivTow Straits Limited". The amalgamated company has an authorized capital of 3,000,000 common shares without par value. The shareholders of RivTow received a total of 2,000,000 common shares aggregating 83.68% of the common shares of the amalgamated company outstanding on January 2, 1975 and being one share in the amalgamated company for each share in RivTow previously held. The shareholders of Whitier received a total of 390,000 common shares in the amalgamated company aggregating 16.32% of the common shares outstanding on January 2, 1975 and being 130 shares in the amalgamated company for each share in Whitier previously held.

The consolidated balance sheet at January 2, 1975 reflects the amalgamation of RivTow and Whitier and includes all of the wholly-owned subsidiaries of both companies of which the following were subsidiaries of Whitier at the time of the amalgamation:

West Coast Salvage & Contracting Co. Limited
Harbun Investments Ltd.
Purves Ritchie Limited
Purves Ritchie Sales Ltd.
Canyon Cable & Supplies (1972) Ltd., and
The West Coast — Purves Ritchie Company, a wholly-owned partnership.

The results of the operations of the amalgamated company and its subsidiaries for the brief period in 1975 prior to the amalgamation are not significant and will be included in the operating results for the year ended December 31, 1975.

The net assets of Whitier, which have been accounted for on a purchase basis, are as follows:

Working capital	\$ 834,000	
Fixed and other assets	2,637,000	
	<u>3,471,000</u>	
Less		
Long-term debt	\$1,374,000	
Deferred income taxes	<u>537,000</u>	1,911,000
Consideration for 390,000 common shares of the amalgamated company		<u>\$1,560,000</u>

B. Business acquisitions

During the year the company acquired:

- (i) all of the issued and outstanding shares of Point Grey Towing Co. Ltd. and two affiliated companies with effect from January 1, 1974 and also acquired with effect from October 1, 1974 the outside share interests of three additional companies affiliated with Point Grey Towing Co. Ltd. (Point Grey Towing Group) and,
- (ii) the 33-1/3% minority share interest in Sechelt Sand & Gravel Ltd. (Sechelt) and,
- (iii) the remaining 50% interest in the shares of Tilbury Island Terminals Ltd. (Tilbury), previously accounted for as a joint venture.

As a result of these transactions the company acquired:

	Point Grey Towing group	Sechelt and Tilbury	Total
Assets (principally fixed and gravel rights)	\$ 678,000	\$ 545,000	\$1,223,000
Non-current liabilities	56,000	154,000	210,000
	<u>622,000</u>	<u>391,000</u>	<u>1,013,000</u>
Less advances net of decrease in equity to December 31, 1973	—	177,000	177,000
Net assets	<u>\$ 622,000</u>	<u>\$ 214,000</u>	<u>\$ 836,000</u>
The net assets were acquired for:			
Cash	\$ 622,000	\$ 52,000	\$ 674,000
Assumption of working capital deficiency	—	74,000	74,000
Reduction of related advances	—	88,000	88,000
Total consideration	<u>622,000</u>	<u>214,000</u>	<u>836,000</u>
Less working capital acquired	<u>169,000</u>	<u>—</u>	<u>169,000</u>
Net investment in the business acquired	<u>\$ 453,000</u>	<u>\$ 214,000</u>	<u>\$ 667,000</u>

3. INVENTORIES

	January 2, 1975	December 31, 1974	December 31, 1973
Materials and supplies	\$1,016,000	\$ 850,000	\$ 597,000
Work in progress, net of progress billings of \$517,000 (1974 — \$1,362,000; 1973 — \$736,000)	730,000	341,000	360,000
Manufactured goods and merchandise for sale	2,234,000	234,000	209,000
Rental equipment	974,000	—	—
	<u>\$4,954,000</u>	<u>\$1,425,000</u>	<u>\$1,166,000</u>

4. LONG-TERM INTERCORPORATE INVESTMENTS

	January 2, 1975 and December 31, 1974	December 31, 1973
Investment in effectively controlled companies		
Shares at cost plus increase in equity from dates of acquisition	\$ 245,000	\$ 212,000
Advances	94,000	38,000
	<u>339,000</u>	<u>250,000</u>
Investment in joint ventures		
Shares, at cost plus increase in equity from dates of acquisition	210,000	1,000
Advances, at cost (1973 net of decrease in equity from date of acquisition)	83,000	378,000
	<u>293,000</u>	<u>379,000</u>
Investment in other companies,		
at cost		
Shares	22,000	22,000
Advances	161,000	193,000
	<u>183,000</u>	<u>215,000</u>
	<u>\$ 815,000</u>	<u>\$ 844,000</u>
Equity in earnings (loss) of		
Effectively controlled companies	30,000	20,000
Corporate joint ventures	218,000	(275,000)
	<u>\$248,000</u>	<u>\$(255,000)</u>

5. FIXED ASSETS

On the formation of RivTow Straits Limited in 1970, the vessels were valued at amounts approximating appraisals in April 1970 by J. P. Brown, Principal Surveyor, Marine Surveyors of Western Canada, less allowances for the fact that such values exceed amounts recognized by the tax authorities for purposes of determining future write-offs; values of most of the lands were arrived at by appraisers of Macaulay, Nicolls, Maitland & Co. Ltd. in March and April 1970; plant and

equipment was recorded at a nominal value; the values of the remaining properties, relatively minor amounts, were determined by officials of the companies. All additions subsequent to the dates of the appraisals are recorded at cost.

The leases are of varying terms up to 20 years. Customarily, they are extended upon application by the lessee and consequently are considered to have a perpetual life.

6. DEFERRED CHARGES

	January 2, 1975 and December 31, 1974	December 31, 1973
Expenditures related to joint ventures, less amortization	\$ 280,000	\$ 279,000
Financing costs	160,000	—
Start-up costs relating to new business activities	88,000	22,000
	<u>\$ 528,000</u>	<u>\$ 301,000</u>

7. LONG-TERM DEBT

	January 2, 1975	December 31 1974	1973
First mortgage bonds			
Series A with an interest rate varying from a minimum of 12.5% to a maximum 13% due December 1, 1984	\$ 8,000,000	\$ 8,000,000	—
Series B 13.1% due December 23, 1984	6,000,000	6,000,000	—
Sinking fund bonds payable in U.S. funds	—	—	\$1,100,000
Other loans			
Bank loans			
Current terms of repayment require monthly instalments of \$16,000 including principal and interest at prime plus 2¼ %	672,000	—	—
Current terms of repayment require monthly instalments of \$17,000 including principal and interest at prime plus 2½ %	742,000	—	—
Bank term loans, due 1976 and 1977	—	—	4,380,000
Other loans, notes, mortgages and agreements payable	1,242,000	1,009,000	3,188,000
	<u>16,656,000</u>	<u>15,009,000</u>	<u>8,668,000</u>
Less principal instalments due within one year included in current liabilities	1,228,000	955,000	2,957,000
	<u>\$15,428,000</u>	<u>\$14,054,000</u>	<u>\$5,711,000</u>

The Series A and Series B first mortgage bonds, (the "bonds") which rank pari passu with one another, were issued by RivTow Straits Limited and twelve of its subsidiary companies to two lending institutions pursuant to the terms of two loan and pledge agreements both made as of July 2, 1974 and a deed of trust and mortgage (the "trust deed") bearing formal date of July 2, 1974. The bonds which are guaranteed by ten additional subsidiary companies of RivTow Straits Limited are repayable in monthly instalments with periodic increases in principal over ten years commencing January 1975. Pursuant to the terms of the trust deed, the bonds are secured by first, fixed and specific mortgages, pledges and charges created by the trust

deed on the lands, leases of land, vessels, shares and other assets of RivTow Straits Limited and its subsidiary companies which issued the bonds. The companies are required to comply with certain restrictive covenants as set out in the loan and pledge agreements and the trust deed.

As of January 2, 1975 principal instalments due within the next five years are as follows:

1975	\$1,228,000
1976	1,308,000
1977	1,287,000
1978	1,606,000
1979	1,812,000

8. SHARE CAPITAL

January 2, 1975

Authorized

3,000,000 Common shares
without par value

Issued

2,390,000 Common shares \$3,560,000

December 31, 1974 and 1973

Authorized

3,000,000 Common shares
par value \$1

Issued

2,000,000 Common shares \$2,000,000

9. INCOME TAXES

The company's effective tax rate is higher than normal as a result of:

- (i) losses of approximately \$104,000 incurred in subsidiary companies for which no recognition has been made of the future income tax benefits, and
- (ii) legal expenditures, amortization of gravel rights, and other allowances which are not deductible for income tax purposes in the aggregate of approximately \$66,000.

Certain of the companies have unutilized losses for income taxes aggregating \$625,000 and these will be available as reductions from taxable income as follows: 1975 — \$207,000, 1976 — \$85,000, 1978 — \$286,000, 1979 — \$47,000.

In certain subsidiaries capital cost for income tax purposes exceed the net book value of fixed assets by approximately \$186,000 and the future tax benefit has not been recognized in the accounts.

10. EXTRAORDINARY CREDITS

	1974	1973
Gain on sale of land, less related deferred income taxes of \$90,000	\$289,000	—
Reduction of income taxes arising from the application of prior year's losses	62,000	\$135,000
Other, less related current and deferred income taxes of \$21,000 (1973 — \$25,000)	61,000	25,000
Reduction of deferred income taxes	—	102,000
	<u>\$412,000</u>	<u>\$262,000</u>

11. COMMITMENTS AND CONTINGENT LIABILITIES

- (a) As of January 2, 1975 the company has commitments in respect of bare-boat charters and long-term leases for vessels and equipment as follows:

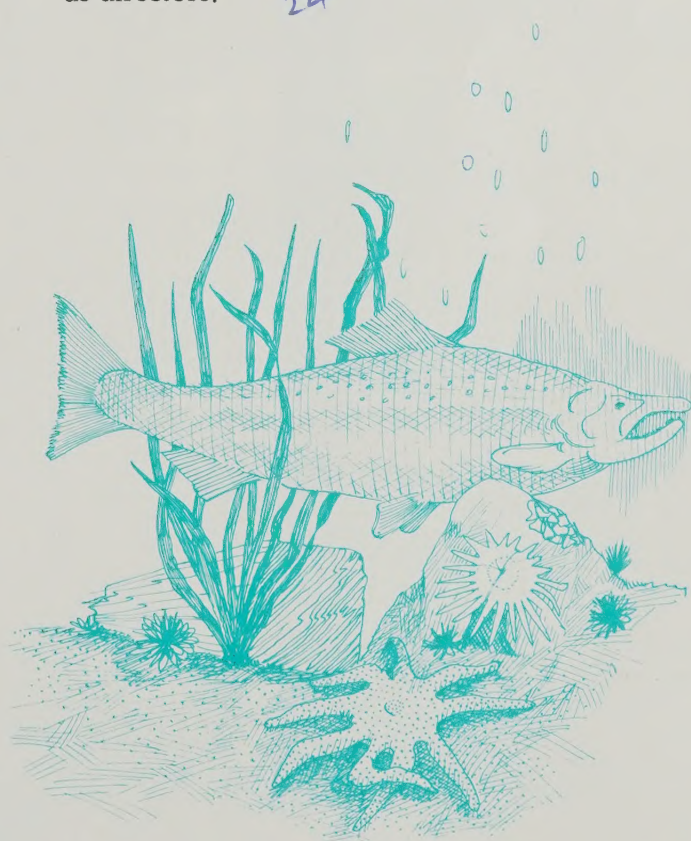
1975	\$868,000
1976	777,000
1977	736,000
1978	268,000
1979	189,000
After 1979	864,000

The majority of the leases contain options to purchase the vessels and equipment at varying amounts during the term of the lease.

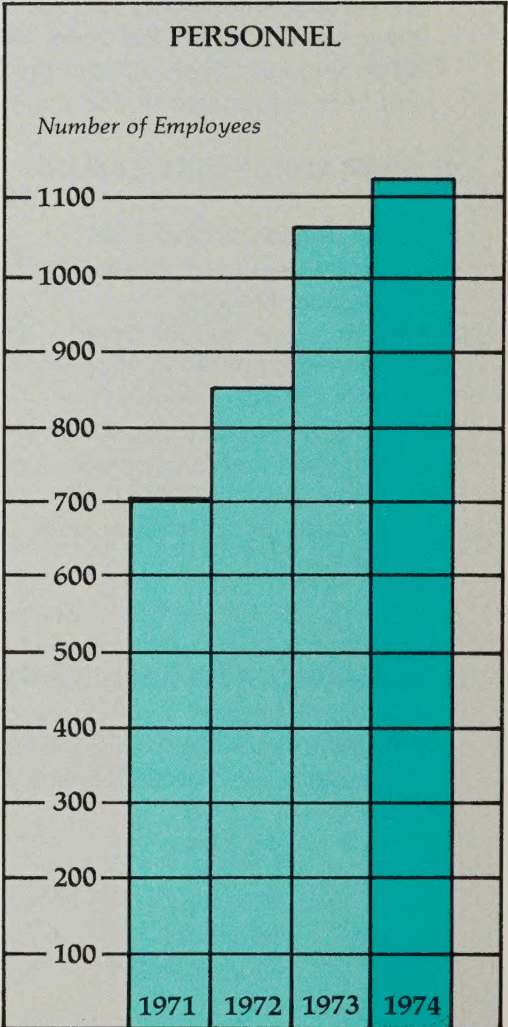
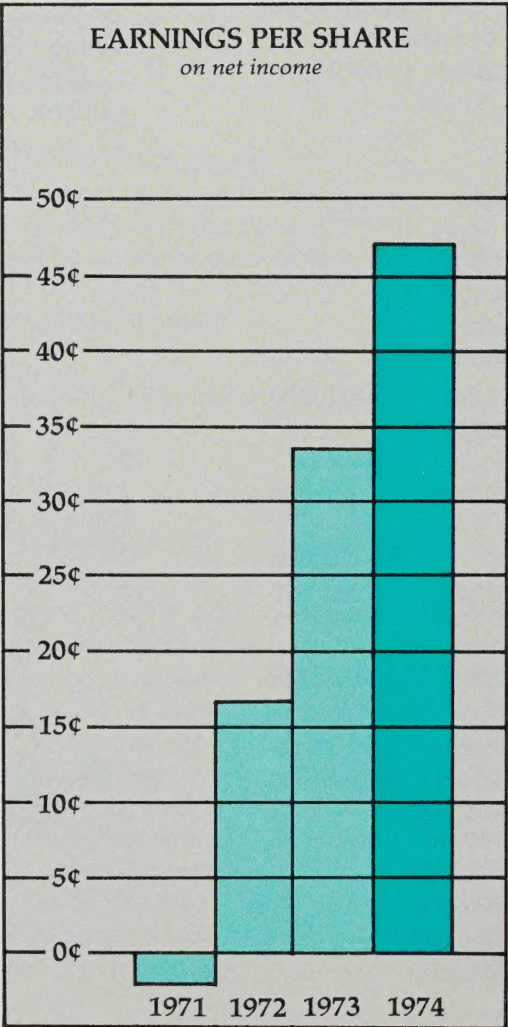
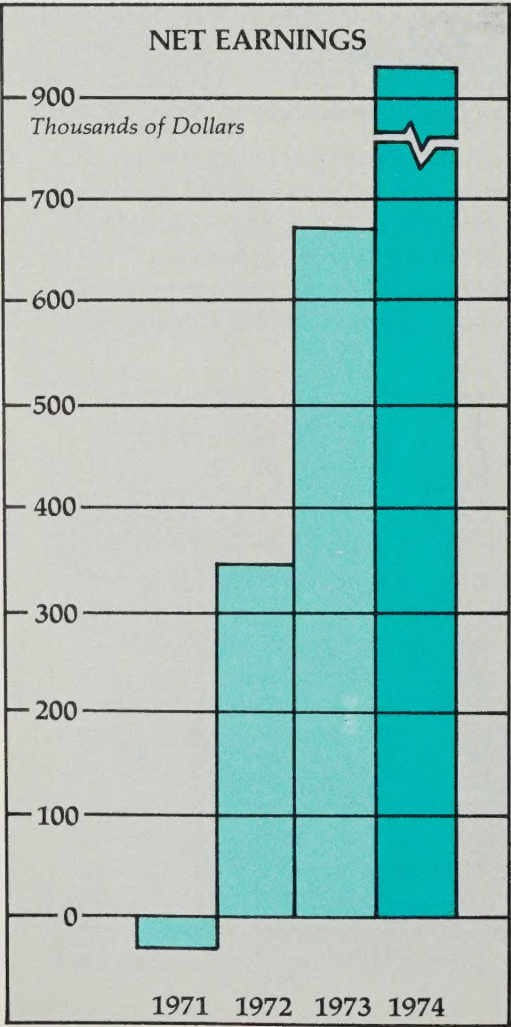
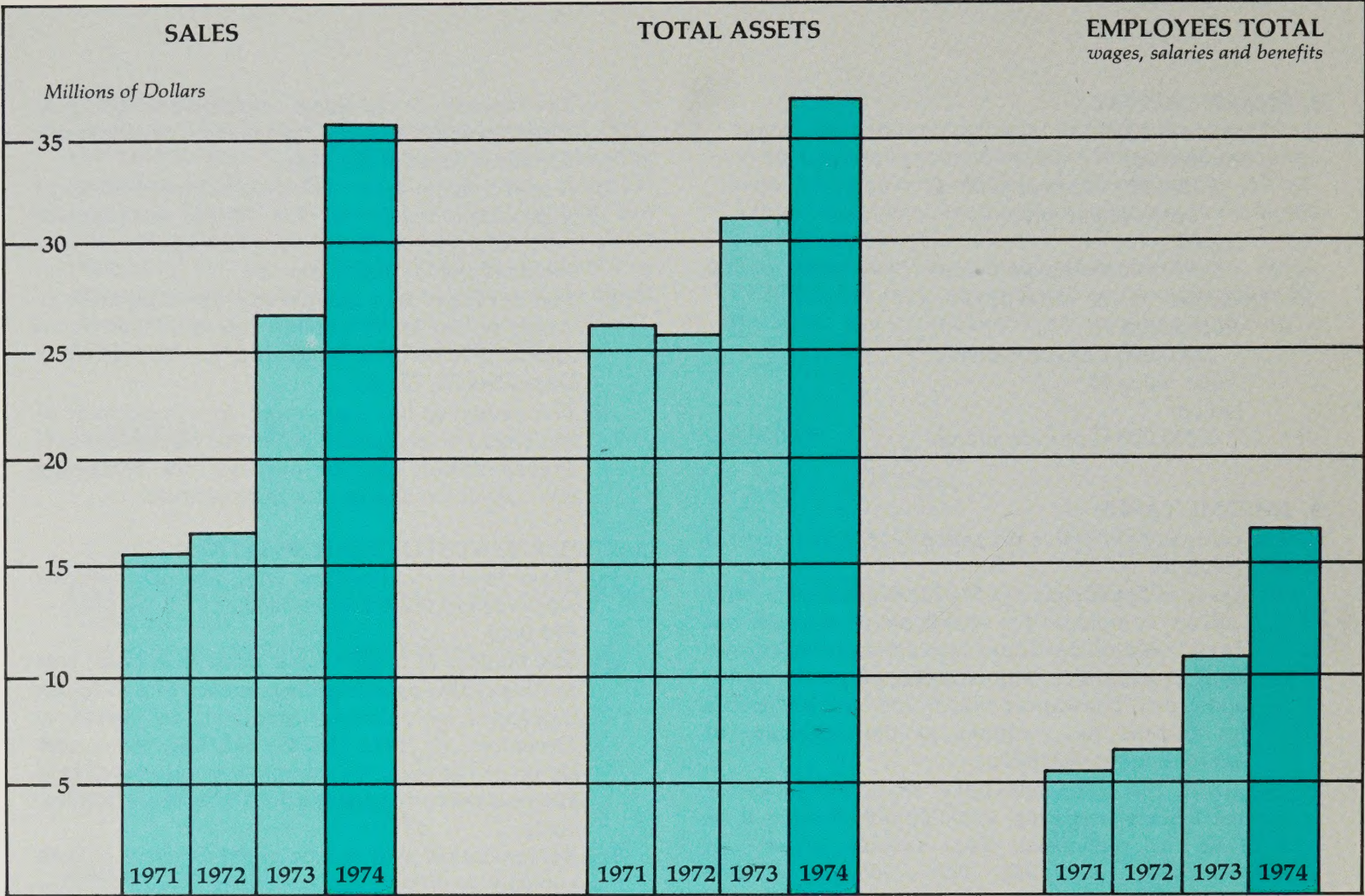
- (b) A gravel rights agreement requires the payment of a minimum royalty of \$30,000 per year for the next 31 years. In 1974, royalties based on sales exceeded the annual minimum.
- (c) The company has guaranteed, for companies in which it has an ownership interest, bank loans and long-term debt amounting to \$1,365,000 at December 31, 1974.
- (d) The company has guaranteed to a maximum of \$125,000 the obligation of Arctic Navigation and Transportation Ltd. to purchase the remaining one-half of the shares of a joint venture.

12. OTHER STATUTORY INFORMATION

- (a) Term loans to directors who are also officers amounted to \$13,000 at December 31, 1974 (1973 — \$18,000).
- (b) The balance of a term loan, made in a prior year and repayable by annual instalments, to a company controlled by a director amounted to \$54,000 at December 31, 1974 (1973 — \$62,000). As a condition of the loan, the company is assured of continued access to marine and dock facilities at nominal cost.
- (c) Remuneration paid to four of the directors in their capacity as directors amounted to \$6,000 (1973 — \$5,000). The remuneration paid to six senior officers as defined by the Companies Act of British Columbia (four of whom were also directors) amounted to \$184,000 (1973 — \$172,000). The officers receive no remuneration in their capacity as directors.



Financial Highlights







RIVTOW STRAITS LIMITED

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